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M. Scott Crocco
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Mr. Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO BOX 5116
Norwalk, Connecticut 065856-5116

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: FASB File Reference No. 2013-270 and IASB Reference ED/2013/6, Exposure Draft Leases

Dear Chairman Golden and Chairman Hoogervorst:

We appreciate the opportunity to comment on the joint Exposure Draft, *Leases* ("Proposed Update").

Air Products and Chemicals, Inc. ("we"), serves customers in energy, chemicals, electronics, manufacturing and other markets worldwide with a portfolio of atmospheric gases, process and specialty gases, performance materials, equipment and services. In fiscal 2012, Air Products had annual revenues of $9.6 billion and operations in over 50 countries. The scope of the proposed ASU would apply to Air Products as a lessee and lessor. As a lessee, we enter into operating leases, principally related to real estate and distribution equipment, and capital leases for the right to use machinery and equipment. As a lessor, certain of our take-or-pay sales contracts are considered leases under current Topic 840 (formerly EITF Issue No. 01-08 as pre-codification source) and are primarily accounted for as sales-type leases.

Overall

We commend the FASB and IASB on their continued efforts to achieve convergence of the accounting standards for leases and on the substantial improvements and simplifications made in the current proposal versus the 2010 ED. The stated objective of the project is to require assets and liabilities arising from leases – in particular, operating leases -- to be recognized on balance sheet. However, we believe the cost and complexity of achieving this objective via the proposed guidance outweigh the benefits to financial statement users. Furthermore, we are concerned that a number of the proposed requirements will result in financial statement preparers providing information that is less useful and reliable to financial statement users. We address our specific concerns below.

Lessee Accounting

We understand the desire to record assets and liabilities associated with operating leases on the balance sheet. However, under the current guidance, lessees already disclose the amounts and timing of future minimum lease payments, thereby providing users the ability to understand lessees' future obligations in a manner similar to recording a liability. Our conversations with rating agencies, analysts, investors, and other financial statement users indicate that they regularly adjust key ratios and calculations in their assessment of our financial position to reflect future leasing commitments. As such, none of our financial statement users has ever raised a concern that there is "hidden leverage" related to leases. While we recognize the Boards' objective to increase the prominence of lease assets and liabilities by requiring that they be recorded on the balance sheet, we believe the proposed approach introduces significant cost and complexity beyond what is required to achieve this objective, particularly given that the information is already readily available via existing lease accounting disclosures.

Second, we do not believe the proposed requirement to reassess the lease liability and lease receivable whenever there is a change in relevant factors that would impact the lease term or a change in rates used to determine lease payments is practical from a cost or application standpoint and recommend that it be simplified or removed from the proposed ED. We expect there to be significant divergence in practice as companies utilize different methods and assumptions to operationalize these requirements, resulting in financial statements that are less reliable, comparable, and useful.

Finally, we do not agree with the proposal to record lease obligations for periods beyond the contractual term. We question whether obligations for these periods meet the definition of a liability. In our experience, the main reason that lessees limit the term of their lease contractual obligations is uncertainty, i.e., they lack visibility into the future to know how long they will require the use of the underlying asset. We believe the judgments required to assess extension periods will introduce inordinate cost and complexity and produce asset and liability estimates that are less reliable and comparable across companies than what is currently disclosed and understood under the existing model.

Lessor Accounting

Similar to the requirements for lessees, the proposed approach for lessors is unnecessarily complex and costly to implement and will result in divergence in practice. As an example, in situations where we would be required to record a residual asset, we would need to make assumptions about the fair value of assets 15 to 20+ years from now. The extended life of the asset reduces the reliability of assumptions that far into the future, and this is another instance where there is certain to be diversity in assumptions used by similar companies for similar transactions. This concern is consistent with concerns expressed by many respondents to the FASB Proposed ASU for *Financial Instruments – Credit Losses,* where forecasting assumptions over a lengthy time horizon is not likely to provide more accurate or beneficial information to financial statement users.

Disclosure

We are concerned that the cost and operational complexity of the proposal to roll forward lease liabilities by lease type outweigh the benefits to financial statement users relative to current disclosure requirements. We recommend the Boards assess whether there is additional information that would be useful to financial statement users under the existing accounting model.

Reconsider Lease Definition

Compared to the 2010 ED, there are scope changes in the proposed ED as to which arrangements qualify as leases or contain leases. However, we believe that the current scope of the proposed ED should include further revisions as to the types of arrangements that would be considered leases. We and other constituents have previously expressed concerns that the scope of EITF Issue No. 01-08 (ASC 840) in U.S. GAAP results in arrangements being inappropriately classified as leases. In previous comment letters, we have stated our objections to EITF Issue No. 01-08 (ASC 840) and suggested a principles-based approach which allows for a broader evaluation of the substance of an arrangement by a more comprehensive analysis of the risks and rewards of ownership. Accordingly, we recommend a reconsideration of the definition of a lease and revisiting the scope of current standards, specifically EITF Issue No. 01-08 (ASC 840) guidance.

Summary

In summary, while we commend the Boards' efforts to improve lease accounting, we have serious concerns that the requirements of the proposed ED will be burdensome and the implementation costs will exceed the benefits. Additionally, we are concerned that the significant estimates and assumptions required to apply the proposed ED will result in financial statement preparers providing information that is less reliable and useful to financial statement users. Finally, we recommend the Boards reassess the lease definition to allow a more comprehensive analysis of the risks and rewards of ownership in long-term arrangements.

We appreciate the opportunity to provide comments on the proposed ED and would be pleased to discuss our views further with you.

Respectfully,

M. Scott Crocco

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